

Message Text

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ACTION ARA-17

INFO OCT-01 ADP-00 INT-08 SCEM-02 AID-20 CIAE-00 COME-00

EB-11 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-15

STR-08 CEA-02 H-02 L-03 PA-03 PRS-01 USIA-12 RSR-01

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R 151946 Z JUN 73

FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC 7996

LIMITED OFFICIAL USE SECTION 1 OF 2 BOGOTA 4974/1

E. O. 11652: N/ A

TAGS: EMIN CO

SUBJECT: EL CERREJON COAL PROJECT

REF: STATE 110116

1. SUMMARY- THE COLOMBIAN PRESS HAS CARRIED NUMEROUS STORIES QUESTIONING THE REPUTED TERMS OF PEABODY COAL COMPANY'S INVOLVEMENT IN THE EL CERREJON COAL PROJECT. THIS COVERAGE COINCIDED WITH THE VISIT OF PEABODY OFFICIALS TO DISCUSS THE PROJECT WITH THE GOC. WITH THE EMBASSY'S ASSISTANCE, PEABODY OFFICIALS CLARIFIED THAT THE PREVIOUSLY NEGOTIATED MEMORANDUM OF UNDERSTANDING IS IN NO WAY A CONTRACT AND THAT ANY FURTHER PEABODY INVESTMENT WILL TAKE INTO ACCOUNT THE INTERESTS OF BOTH THE GOC AND THE COMPANY WHILE SOME PRESS CRITICISM CONTINUES, THE MEETINGS BETWEEN THE COMPANY AND HIGH GOC OFFICIALS WERE CORDIAL AND CONTRACT NEGOTIATIONS ARE EXPECTED TO BEGIN IN JULY.
END SUMMARY

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2. BYRON GRANT, CHAIRMAN OF THE BOARD OF THE PEABODY COAL COMPANY, AND OTHER COMPANY OFFICIALS VISITED COLOMBIA JUNE 11-13 TO REVIEW THE OVERALL ECONOMIC AND POLITICAL CLIMATE FOR INVESTMENT AND TO INITIATE

DISCUSSIONS WITH THE GOC CONCERNING FURTHER STAGES IN
THE PROPOSED DEVELOPMENT OF THE EL CERRJEON COAL DEPOSITS.
PEABODY HAS INVESTED ABOUT \$300,000 THUS FAR IN
PRELIMINARY FEASIBILITY STUDIES OF THE PROJECT. PRIOR
TO THE ARRIVAL OF THE PEABODY REPRESENTATIVES THE
MINISTER OF MINES HAD INFORMED THE AMBASSADOR THAT THE
GOC CONSIDERED THE SUGGESTED TERMS OF CONTRACT CONTAINED
IN A MEMORANDUM OF AGREEMENT BETWEEN PEABODY AND THE
INDUSTRIAL DEVELOPMENT INSTITUTE (IFI) TOO FAVORABLE
TO THE COMPANY. ACCORDINGLY, THE AMBASSADOR SUGGESTED
TO THE PEABODY REPRESENTATIVES THAT THEY MIGHT
WISH TO MEET WITH HIM PRIOR TO APPOINTMENTS WITH THE GOC.

3. OVER THE WEEKEND BEFORE THE PEABODY OFFICIALS
ARRIVAL, A COLUMN IN EL TIEMPO WRITTEN BY ENRIQUE
SANTOS CALDERON (WHOSE COMMENTARIES USUALLY CARRY A LEFTIST
AND AN ANTI- U. S. ORIENTATION) CRITICIZED THE " SECRET CONTRACT"
BETWEEN PEABODY AND IFI AS EXCESSIVELY GENEROUS TO
THE COMPANY AND SUGGESTED THAT NEGOTIATIONS MAY NOT HAVE
BEEN ENTIRELY ABOVE- BOARD. MINISTRY OF MINES OFFICIALS
ASSUME THAT SOMEONE IN THE MINISTRY PROVIDED SANTOS WITH
A COPY OF THE AGREEMENT IN ORDER THAT HE MIGHT MAKE AN
ATTACK COORDINATED WITH THE PEABODY VISIT. THESE OFFICIALS
ALSO STATE THAT THE DOCUMENT CARRIED NO RESTRICTIONS ON
DISTRIBUTION (IT WAS THEN IMMEDIATELY MADE
AVAILABLE TO THE PRESS) BUT THAT NO ONE HAD PREVIOUSLY
REQUESTED TO SEE IT SINCE IT WAS SIGNED. FOLLOWING
SANTOS ARTICLE, GOC OFFICIALS INDICATED THAT THE
MEMORANDUM WAS ONLY A PRELIMINARY DOCUMENT, NOT
A CONTRACT, AND HAD NO LEGAL STATUS.

4. WHEN PEABODY OFFICIALS CALLED ON THE AMBASSADOR
JUNE 11, THEY INDICATED THAT THEY ALSO REGARDED THE
MEMORANDUM OF UNDERSTANDING AS ONLY A PRELIMINARY DOCUMENT
AND WERE PREPARED TO BEGIN NEGOTIATIONS FOR AN ACTUAL
CONTRACT WITH LITTLE REFERENCE TO THE MEMORANDUM. THE
AMBASSADOR SUGGESTED THAT THE COMPANY MIGHT WISH TO ISSUE
A PRESS STATEMENT TO THIS EFFECT. THE COMPANY OFFICIALS
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AGREED AND THE PAO DRAFTED A STATEMENT NOTING THAT THEY
AGREED THAT THE MEMORANDUM WAS NOT IN ANY WAY A CONTRACT
AND THAT WHILE PEABODY HAS PLANS FOR INCREASING ITS
INVESTMENT IN EL CERREJON THIS WILL ONLY BE DONE IF, AFTER
FULL DISCUSSION WITH THE GOC, SUCH INVESTMENT WILL RESULT
IN MUTUAL BENEFIT TO BOTH COLOMBIA AND THE COMPANY. THE
PAO PERSONALLY CARRIED THE STATEMENT TO THE EDITORS OF
BOGOTA'S TOP TWO NEWSPAPERS, AND RELEASED IT TO OTHER MEDIA
THROUGH REGULAR USIS CHANNELS. IT WAS CARRIED ON PAGE
ONE BY MAJOR BOGOTA DAILIES (ALTHOUGH DOWNPLAYED
AND SLIGHTLY DISTORTED BY EL TIEMPO).

5. BEFORE DEPARTING BOGOTA THE PEABODY OFFICIALS AGAIN MET WITH THE AMBASSADOR TO REVIEW THEIR DISCUSSIONS WITH GOC OFFICIALS. THEY HAD MET WITH PRESIDENT PASTRANA, THE MINISTERS OF DEVELOPMENT AND MINES, THE DIRECTOR OF NATIONAL PLANNING AND IFI. MR. GRANT NOTED THAT THEY HAD BEEN CORDIALLY RECEIVED IN EACH INSTANCE.

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PEABODY'S PRINCIPAL INTEREST HAD BEEN IN MAKING CLEAR TO THE GOC THAT WHILE IT WAS PREPARED TO DISREGARD THE MEMORANDUM OF UNDERSTANDING AND START CONTRACT NEGOTIATIONS " FROM SCRATCH" A NUMBER OF ESSENTIAL AREAS OF AGREEMENT MUST BE ESTABLISHED BEFORE THE COMPANY CAN PROCEED TO INVEST LARGE ADDITIONAL SUMS. (THE TOTAL PROJECT IS ESTIMATED AT \$100-150 MILLION.) THESE AREAS INCLUDE THE QUESTIONS OF PROFIT LEVELS, REMITTANCES, TAXES, IMPORT POLICIES, ETC. MR. GRANT INDICATED THAT ON SUCH A HIGH RISK OPERATION, FOR EXAMPLE, EVEN IN THE U. S. A MINIMUM RETURN OF 15 PERCENT WOULD BE EXPECTED: IN THE CASE OF EL CERREJON, PEABODY MIGHT REQUIRE SOMEHTING IN THE AREA OF 25 PERCENT.

6. PRESIDENT PASTRANA HAD GIVEN SPECIAL ATTENTION TO A DECREE PUBLISHED DURING THE COURSE OF THE PEABODY VISIT NAMING A SPECIAL COMMISSION COMPOSED OF THE MINISTERS OF DEVELOPMENT AND MINES, THE DIRECTOR OF NATIONAL PLANNING AND THE DIRECTOR OF IFI TO ACT FOR THE GOC IN NEGOTIATION OF A CONTRACT. MR. GRANT HAD INDICATED THAT SUCH A PROCEDURE WAS QUITE ACCEPTABLE TO THE COMPANY.

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THE COMMISSION IS EXPECTED TO BE IN OPERATION BY JULY 12, 1973 AND THE GOC HOPES THAT A CONTRACT NEGOTIATION CAN BE COMPLETED WITHIN 3-4 MONTHS. THE PRESIDENT ALSO NOTED THAT EL CERREJON IS JUST ACROSS THE BORDER FROM COAL CONCESSIONS WHICH PEABODY HAS IN VENEZUELA (NOT PRESENTLY IN OPERATION) AND WONDERED IF SOME FORM OF JOINT DEVELOPMENT MIGHT BE POSSIBLE. (THERE HAS BEEN SOME SPECULATION ABOUT WHICH THE EMBASSY IS SOMEWHAT SKEPTICAL, THAT THE GOC MAY WISH TO EXPLORE SUCH A JOINT OPERATION IN COAL AS A STEPPING STONE TO SOME SORT OF JOINT ENDEAVOR IN THE DISPUTED CONTINENTAL SHELF AREA WHICH IS GENERALLY CONSIDERED TO BE ATTRACTIVE FOR PETROLEUM EXPLORATION.)

7. PEABODY OFFICIALS INDICATED THEY ARE WELL AWARE OF THE MANY DIFFICULTIES INVOLVED IN A POSSIBLE INVESTMENT OF THIS NATURE INCLUDING THE SOCIAL PROBLEMS OF THE POVERTY-STRICKEN AREA WHERE THE DEPOSITS ARE LOCATED, AND THAT THEY EXPECT HARD BARGAINING ON BOTH SIDES. THEY NEVER-THELESS HOPE THAT REGARDLESS OF WHETHER OR NOT A CONTRACT IS REACHED FRIENDLY RELATIONS BETWEEN THE COMPANY AND THE GOC CAN BE MAINTAINED SINCE PEABODY'S PARENT FIRM, KENNEDY, COULD HAVE OTHER INTERESTS IN COLOMBIA IN THE FUTURE, SUCH AS THE COPPER DEPOSITS ANNOUNCED LAST YEAR. MR. GRANT ALSO NOTED THAT AMONG THE MANY FACTORS THE COMPANY MUST CONSIDER IS THAT THE NEGOTIATIONS SCHEDULE COULD LEAD TO THE POINT OF SIGNING A MAJOR CONTRACT ON THE EVE OF PRESIDENTIAL ELECTIONS. HE QUESTIONED WHETHER A NEW GOVERNMENT WOULD BE COMPLETELY IN AGREEMENT WITH SUCH A CONTRACT. THE AMBASSADOR EXPRESSED UNDERSTANDING OF THIS CONCERN BUT NOTED THAT THE MINISTER OF MINES IS A LIBERAL AND CAN BE EXPECTED TO KEEP ABREAST OF HIS OWN PARTY'S VIEWS. (THIS WAS CONFIRMED BY MINISTER OF MINES IN A SUBSEQUENT CONVERSATION WITH THE AMBASSADOR.)

8. THE LOCAL PRESS CONTINUES TO GIVE EXTENSIVE COVERAGE TO THE EL CERREJON PROJECT, AND EL TIEMPO APPEARS TO BE ATTEMPTING TO USE THE CASE AS A CHANNEL TO CRITICIZE THE GOVERNMENT. (THE EMBASSY WOULD EMPHASIZE THAT EL TIEMPO IS A COMPETENT, HIGHLY RESPECTED NEWSPAPER WITH HOWEVER A FOUR WAY EDITORIAL POLICY REPRESENTING FOUR LIMITED OFFICIAL USE

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DIFFERENT BASIC VIEWS, ONE OF WHICH IS HIGHLY NATIONALISTIC, ANTI-AMERICAN AND SOMEWHAT LEFTIST. AS LONG AS THE LATTER DOES NOT GO TOO FAR AND MAKES FOR GOOD JOURNALISM- IT IS TOLERATED BY THE OTHER THREE. IS IS ALSO A LIBERAL

PARTY ORGAN WHILE THE PRESIDENCY IS IN CONSERVATIVE HANDS).
THE ATTORNEY GENERAL'S OFFICE HAS IN FACT NAMED AN
INVESTIGATING TEAM TO REVIEW THE NEGOTIATIONS TO DATE
FOR IRREGULARITIES. DESPITE THE INSISTENCE OF EL TIEMPO
IN REFERRING TO THE PEABODY- IFI " CONTRACT, IT WOULD
APPEAR THAT SUCH AN INVESTIGATION HAS ALREADY BEEN RATHER
DEFUSED BY THE PUBLIC EMPHASIS OF BOTH THE COMPANY AND
THE GOC THAT NO CONTRACT YET EXISTS.

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